Dear Industrious shareholders,

I'm guessing you've read more about WeWork in the past month than you ever thought you would. If you haven't, I hope you're enjoying your month-long silent meditation retreat or extended honeymoon in Zanzibar.

I and the rest of the executive team don't feel inclined to participate in all of the schadenfreude around WeWork's missteps. While these developments are obviously good for Industrious as a business, I don't think that supersedes the fact that thousands of people seem set to lose their jobs and this is a crappy situation for a company that was a trailblazer in the industry regardless of the business opportunity it represents.

But with Adam's departure from WeWork, the noise level has gotten so loud that I thought it was worth checking in to clarify how we view the industry, our own business, and our view on where the industry is going.

What does the WeWork crisis mean for us?

The past month has been a powerful validation of our strategy and track record. Do not think it has gone unnoticed.

Our teams are working hard to respond to the increased attention it has brought us. On the landlord front in particular, this appears to be causing our existing partners to double down and new partners to come out of the woodwork. We're also for the first time having landlords proactively approach us to ask if we could manage former WeWork locations for them if WeWork ends up walking or trying to renegotiate their leases.

And while we've historically not hired former WeWork employees out of an abundance of caution, I do think a WeWork downsizing merits reconsidering this tactic. We have ambitious hiring needs, many WeWork employees are among the sharpest I've met in NYC, and I suspect we'd be a natural home for some of them.

The industry landscape right now

Like outsourced manufacturing in the 1990s, data storage in the 2000s, or outsourced software in the past decade, adoption of workplace outsourcing has begun to skyrocket as the increased sophistication of quality workplace providers has collided with more employee-focused real estate decision-making and the death of the ten-year lease.

WeWork or no WeWork, the shift to buying workplace as a service is underway and as companies become more and more habituated to it, the strongest providers in the industry should be able to compound growth for a long time to come.

In the face of this growing demand, five competitive strategies have emerged (this is a gross oversimplification, but hopefully still helpful):

1) Grow at all costs
   - A scale-at-all-cost, asset-heavy approach growing at >150% per year.
   - Primary examples: WeWork, Knotel.

2) Experience-focused, landlord-partnership approach
   - Landlord-driven, asset-light approach with 50-150% per year growth.
   - Primary example: Industrious.

3) Adjacent new entrants
   - Businesses in adjacent industries leveraging their core business to enter the market.
   - Primary examples: Studio (Tishman Speyer), Hana (CBRE), Convene

4) Niche players
   - Smaller providers targeting a specific demographic or industry.
   - Primary examples: The Wing, Neuehouse

5) Existing portfolio optimizers
   - Old-line providers growing slowly and primarily trying to squeeze income from their existing portfolio.
   - Primary examples: Regus, The Executive Center, Servcorp.

All of these strategies have their advantages and disadvantages, but we believe strongly that our approach has led us to the most sustainable, sticky, defensible business in the industry.

How Industrious will win

For us, meaningful success in this industry has required steadfast dedication to these pillars:

Focus on building the best workplaces in the world
We put our members first. Providing the best customer service is at the core of our business and the primary factor motivating everything we do. For us, an opportunity either bolsters our ability to deliver the world's most productive workplaces, or we steer clear of it. Every M&A deal, every product extension, every major investment, is targeted towards customer service. As a result, our net promoter score is now at 74%, roughly double the rest of the industry, our churn rate remains enviably low, and the new products we have launched are forming a self-reinforcing cycle with our core product, rather than sapping our attention and efficacy.

Lead the industry in unit economics
There's a tendency in our industry to obscure how units are performing. We don't.

We've always been transparent in order to help our investors and partners understand the fundaments of our business performance. Without clear unit information, it's impossible to understand how Industrious, or any other provider, is actually doing.

So we set an ambitious cutoff point of 10 months to define maturity, and share our cash and accrual margins and ROI for every unit, as well as cohorted information.

Over the past 6 months, our average mature leased unit margin was 31%, mature leased unit ROI was 34%, managed unit margin was 91%, and while our managed units are too young to calculate a meaningful IRR, they are on track to average 90%. This is without any adjustments or removing sales and marketing. Revenue per workstation is

now 30% above WeWork's reported S-1 number, and increased 12% last year while the vast majority of the industry saw decreasing per-workstation revenue numbers.

Evolve to management contracts

Deciding last year to become a 100% management contract business moving forward was undoubtedly the most controversial and strife-ridden decision in Industrious's history. The counter-points that were made at the time weren't just valid then, but remain valid to this day. And we didn't know whether anyone would take us up on it.

Today we have more than 25 landlord partners and will launch 50 to 60 managed units next year alone. On top of that, the majority of our management contract partners are already negotiating subsequent locations with us, a sign of our reliability as a partner, and confidence in our performance.

Profitability

Industrious is on the eve of profitability at a time when most of our industry is headed in the opposite direction. It's difficult to grow a business at 120% revenue CAGR. It's harder to do so while launching new products, new markets, and effectuating a labor-intensive, industry-first business model evolution.

What's even more difficult is doing it while maintaining the overhead discipline necessary to march to profitability. But that's exactly what Industrious has done over the past three years.

Two years ago, Industrious units produced enough cash flow to cover 28% of the company's overhead. Last year, that number was 42%, and in the first half of 2019, our unit cash EBITDA covered 91% of the company's overhead. Our impending profitability is particularly powerful when combined with the growth of our management contract business. Rapid, innovative growth rarely goes hand-in-hand with sustainability, but that's the core of Industrious's commitment to its investors and partners.

Healthy governance and management

As a founder of Industrious, I guess it would be nice to have special supermajority voting shares, or rights beyond those of a typical common shareholder. But as a former corporate lawyer, I've seen what it looks like when governance goes awry. As a result, we committed to building a business that wasn't unduly founder-friendly. Instead, we've tried to balance the interests of our various constituent groups — our employees, our investors, our customers, and our partners — equitably and transparently. I think we've accomplished that. We won't get every strategic decision right, but you can trust they come after thoughtful consideration of the rights and interests of everyone involved and with an eye to long-term sustainability and health over short-term results.

Where is the industry headed?

To wrap this up, here are three predictions about where this industry is going:

1) The era of the coworking sugar high is coming to an end

Earlier this year, Industrious was negotiating with one of the five largest landlords in the country to manage one of their marquee assets. In counter to our typical partnership agreement, they offered a strange contract. It was nominally a management contract, not a lease, but under the contract, Industrious would have made enormous amounts of money for the first two years, but then a vastly above-market obligation would balloon out of nowhere. The unit would inevitably go from making money to just breaking even, or if a recession were upon us, hemorrhaging money.

We told the landlord "no thank you" and out of curiosity, asked if they really thought they'd ever get an operator to sign a deal like that. "Yes," they explained, "it was actually (a top three provider) that proposed this to us."

I say this not to be a scold, but to note that companies are amassing risk in this industry in a way that's difficult to see at first.

The perception is investors pay for revenue. Not profitability, not sustainability, not even a successful business model. Revenue. So companies pursue strategies that maximize revenue at the expense of everything else.

Another top three provider famously told their expansion team to double down on San Francisco, London, and New York at rates far beyond anywhere else. When the team pushed back that those cities had among the lowest ROI and thinnest margins of anywhere in their network, the CEO explained that while that was true, they had the highest price per workstation, so would add more revenue, more quickly than anywhere else.

This behavior is going to come to an end soon. One lesson of the WeWork IPO is that investors are wary of paying for revenue growth alone, and that lesson is likely being learned across the industry.

2) **Consolidation is coming**

While demand continues to grow rapidly in this industry, supply is starting to take off as well. What's becoming clear is that undifferentiated, commodity providers are starting to struggle. One very bright line in the industry is the ability to say to a customer that you can deliver a better workplace experience than when they do it themselves. All of the spoils in the industry are starting to go to the small number of providers who can cross that threshold, which is causing a host of broader changes industry-wide, including a wave of consolidation. This flight to quality will likely accelerate in the case of a recession where occupiers have more leverage.

3) What the best will look like in three years

If you take one thing away from this letter, it should be this: by three years from now, the best operators in the industry will be working hand-in-hand with asset owners to optimize entire assets. Where Industrious already does this today, the impact on tenant experience and overall building performance has exceeded our (and our landlord partner's) expectations.

That doesn't mean the entire asset will be coworking, but rather that assets will combine (1) long-term leased space, (2) medium-term semi-customized space, and (3) shorter-term highly productized space, along with (4) lots of building common amenities and experiences. Individual customers will be able to stitch together a far better

employee experience, with access to more ways to work, more experiences, more options, and more refined and responsive contract terms that are a better fit for their business.

Doing this right will make life simple for the occupier but will greatly increase complexity for the operator and landlord. Elevator systems will need to speak to access control apps, long-term contracts will need to accommodate short term subscriptions on top of them, and employees will need to move seamlessly through company-controlled private spaces and building-controlled shared spaces with no friction. This is a complex business, and a few companies globally will likely dominate. But those that do will be immensely valuable enterprises.

Thank you

As investors you supported our investments in quality when the industry was overheated and it didn't seem necessary. You backed whole building optimization product development when revenue from it looked years away, and you supported the evolution to management contracts when it was an uncertain road and meant revenue tradeoffs in the short run. All of those investments are paying off now, bearing fruit beyond what we even thought possible. It's easy in hindsight to think it was inevitable, but I don't take for granted the risk inherent in those bets at the time, and the trust involved in embarking on them together. I'm deeply appreciative of it.

Sincerely,
Jamie